

Actuaries Institute Recommends Retirement Income Overhaul

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- **Australia's retirement system should be fairer, simpler, and more efficient.**
- **'Carrots and sticks' should be used to encourage efficient use of lifetime savings.**
- **The role of guidance and advice should be enhanced.**

Retirement income for Australians, which rests on the three pillars of compulsory superannuation, a publicly-funded Age Pension, and voluntary savings, must undergo significant reform to be simpler, more efficient, and equitable, a year-long policy review from the Actuaries Institute said.

The Institute's recommendations are set out in a just-released policy document, *Securing Adequate Retirement Incomes for an Ageing Australia*.

More than 200 actuaries provided feedback and advice, with a core group of 40 from three high-level public policy working groups, making specific recommendations. It is the Institute's most comprehensive public policy review of retirement savings.

"Having a robust and effective retirement income system is crucial for the wellbeing of all Australians," said Actuaries Institute, Chief Executive, Elayne Grace. "The objective of the retirement system must be to provide for retirees so that they have a reliable, secure and adequate income, to live with dignity in retirement.

"There are equity and intergenerational fairness issues, including for those excluded from the superannuation guarantee," Ms Grace said. "Gaps need to be addressed. While the system is sound and broadly sustainable, it is widely recognised that there is scope for further reform to improve outcomes."

The federal Government is currently consulting on the development of a retirement income covenant, to help retirees effectively plan for retirement. The Actuaries Institute strongly supports this covenant, coupled with a clear objective for the retirement system as a whole.

The Institute drew on Australia's leading actuaries, working within the Institute's Superannuation and Investments Practice Committee, the Retirement Incomes Working Group, and the Retirement Strategy Group to develop its set of recommendations.

The policy document considers the level of the superannuation guarantee in the context of overall retirement adequacy; how provision of guidance and advice results in better use of super savings; greater flexibility for the role of the family home in retirement income provision, coupled with its inclusion (above a certain threshold) in the Age Pension means test; preservation of superannuation savings and greater support for renters for whom super and the Age Pension can fall short. It also supports continued development of lifetime retirement income stream products that would offer better outcomes for many retirees.

"The 'three pillars' of compulsory superannuation, the Age Pension and voluntary savings mean that individuals are required to make complex choices about how much to save and consume, and how to invest," Ms Grace said. "We support simplifying Age Pension means testing, improving the interaction between the retirement income and aged care systems, encouraging innovation in retirement products, and developing best practice in the provision of financial advice and guidance.



“We would also like to see structural changes such as the removal of disincentives for older Australians who want to continue to work, and greater flexibility for the role of the family home in retirement income provisioning.”

Andrew Boal, Convenor of the Actuaries Institute's Retirement Strategy Group, said Government changes to its supply and demand side policies would improve system efficiencies in delivering retirement incomes to Australian retirees for the rest of their and their partner's lives. These include:

- a covenant, already slated, which requires super funds to have a retirement strategy and solutions that are appropriate for different member cohorts;
- incentives that encourage retirees to take part of their super as a lifetime income stream and disincentives for those who want to leave large bequests from super; and
- accessible and affordable financial advice and guidance at the point of retirement.

Mr Boal said one of the Government's most controversial policies - the level of the compulsory superannuation guarantee, currently set at 10% of earnings – involves a set of complex trade-offs. Community support is the key to future changes.

“The level should not be so low that Australians can't accumulate enough retirement savings, this is against the objectives of the superannuation guarantee and comes at a cost to future generations of taxpayers,” Mr Boal said. “But broken work patterns, involuntary retirement, home ownership, mortgages and debt at retirement, longevity improvements and health needs are also factors,” he said.

He added that improving equity within the retirement income system, including addressing concerns for specific groups that are adversely affected by aspects of the design of the system, is a key plank of the Institute's recommendations.

“There is a large gap in outcomes for those who do and those who don't own their own home at retirement,” he said. “There should be greater assistance for retirees who rent. The system favours homeowners; for example, the principal residence is wholly exempt from the Age Pension asset test.”

One recommendation involves consideration that a portion of the value of the home be included in the asset test, while noting that there are significant variations in home values across Australia. The Institute also warned against the growing number of retirees who use part of their super to pay off a home loan, or other large debts.

“The adequacy of the system is now being undermined by the relative ease for older Australians to obtain a mortgage with a long outstanding term”, the report states. “Superannuation benefits are intended to be used for retirement living rather than secure mortgages.”

Low savings balances for women, who typically retire with super balances that are at least 40% lower than men, must also be addressed.

Gig workers, and other self-employed workers who may miss out on super entirely, should be considered; super should be paid on paid parental leave; and super must be properly considered in divorce settlements. Equity would also be improved if workers received the SG they are entitled to at the same time their wages are paid. Overtime should be included when calculating the SG rate.



Ms Grace said the Actuaries Institute's Public Policy Statement highlights key areas for reform. She said the Institute, as a professional body, holds the public interest or common good as a key principle when developing policy.

"Actuaries have a deep and long-standing expertise in superannuation and retirement incomes," Ms Grace said. "We recognise having the right policies in place is crucial for the retirement system and for intergenerational equity. These are the issues we think need priority for reform."

Here are links to the full copy of the Public Policy Statement, [Securing Adequate Retirement Incomes for an Ageing Australia](#), and the accompanying [Supporting Document](#).

Elayne Grace and Andrew Boal are available for interview.

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About the Actuaries Institute

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, superannuation and investment, general insurance, life insurance and health financing.